

**KENOWA HILLS
PUBLIC SCHOOLS**
Kent and Ottawa Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2008

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents

For the year ended June 30, 2008

Financial Section

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	13

District-Wide Financial Statements:

Statement of Net Assets.....	14
Statement of Activities	15

Fund Financial Statements:

Governmental Funds:

Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	20

Fiduciary Funds:

Statement of Fiduciary Net Assets.....	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Basic Financial Statements	23

Supplemental Information

Combining and Individual Fund Statements and Schedules:

General Fund	39
Comparative Balance Sheet	40
Comparative Schedule of Revenues	41
Comparative Schedule of Expenditures	43

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents (Continued)

For the year ended June 30, 2008

Nonmajor Governmental Funds	49
Combining Balance Sheet.....	50
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	51
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund.....	52
Athletics Special Revenue Fund.....	53
Special Revenue Funds.....	54
Food Service Special Revenue Fund:	
Comparative Balance Sheet.....	55
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	56
Athletics Special Revenue Fund:	
Comparative Balance Sheet.....	57
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	58
Agency Fund.....	59
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities	60
Other Information:	
Summary of 2007 Taxes Levied and Collected.....	62

Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 29, 2008

The Board of Education
Kenowa Hills Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools as of June 30, 2008, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008 on our consideration of Kenowa Hills Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kenowa Hills Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Bester, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Kenowa Hills Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-Wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	2008	2007
Assets		
Current assets	\$ 11,008,157	\$ 10,015,766
Capital assets, net book value	27,744,140	29,784,915
Total Assets	38,752,297	38,800,681
Liabilities		
Current liabilities	5,879,467	5,592,449
Long-term liabilities	29,894,180	31,682,956
Total Liabilities	35,773,647	37,275,405
Net Assets		
Invested in capital assets, net of related debt	(3,267,555)	(3,909,097)
Restricted	1,180,058	431,183
Unrestricted	5,066,147	5,003,190
Total Net Assets	\$ 2,978,650	\$ 1,525,276

Management's Discussion and Analysis
June 30, 2008



The Statement of Activities presents changes in net assets from operating results:

	2008	2007
Program Revenues		
Charges for services	\$ 1,386,341	\$ 1,216,761
Operating grants	5,451,066	4,867,782
General Revenues		
Property taxes	15,363,012	14,367,178
State school aid, unrestricted	15,399,232	15,756,397
Interest earnings	348,335	486,052
Gain on sale of capital assets	—	5,975
Other	284,950	405,309
Total Revenues	38,232,936	37,105,454
Expenses		
Instruction	19,821,188	18,848,003
Supporting services	12,780,290	12,235,496
Community services	704,052	363,248
Food service	1,466,777	1,409,632
Athletics	471,846	439,491
Interest expense	1,535,409	1,624,473
Total Expenses	36,779,562	34,920,343
Increase in net assets	1,453,374	2,185,111
Net Assets - Beginning of Year	1,525,276	(659,835)
Net Assets - End of Year	\$ 2,978,650	\$ 1,525,276

Financial Analysis of the District as a Whole

The District's financial position is influenced by many factors. Growth during the year in taxes and operating grants were again the largest contributors to revenue increases. Expenditure growth outpaced revenue growth in percentage terms this fiscal year.

The District's total revenues increased 3 percent to \$38.2 million. Property taxes and unrestricted state aid accounted for most of the District's revenue, contributing 80 cents of every dollar raised. Another 14.3 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings and miscellaneous sources.

The total cost of all programs and services increased 5 percent to \$36.8 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (66 percent). The District's administrative and business activities accounted for 8 percent of total costs. Operation and maintenance expenses accounted for \$3.1 million or 8 percent.

Total revenues surpassed expenses, increasing net assets by \$1,453,374 from last year.

The improved status of the District's finances this past year can be attributed to maintaining strategies aimed at reducing or restraining increases in operating costs. Cost reduction strategies continue to be applied in the school district's largest fund, the General Fund. Attributes of the District's current financial picture are as follows:

- Rising real estate values and new construction led to a 6.9 percent increase in property tax revenues. The District has not raised property tax rates since 1996 when a bond issue was last approved.
- The cost of all governmental activities this year was \$36.7 million.
- Some of the cost was financed by the users of the District's programs (\$1.3 million).
- The federal and state governments subsidized certain programs with grants and contributions (\$5.45 million) an increase of \$583,284 over the previous year.
- Most of the District's costs (\$36.7 million), however, were financed by District and State taxpayers.
- The \$36.7 million of governmental activities was financed with \$15.4 million in property taxes and \$15.4 million of unrestricted state aid based on the statewide education aid formula. Other financing sources were investment earnings and revenues from other local sources totaling \$.6 million.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kenowa Hills Public School's funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$32,686,280, total expenditures of \$32,272,099, and total other financing uses of \$315,621. It ended the fiscal year with a fund balance of \$5,878,471, an increase of \$98,560 from the fund balance of \$5,779,911 at June 30, 2007. The increase in fund balance of the General Fund is attributed to overall revenues exceeding overall expenditures for the fiscal year.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues were \$1,552,541 and other financing sources were \$309,409, with total expenditures of \$1,916,529. The ending fund balance of \$58,964 was attributable to the Food Service Fund.

Debt Service Fund

The District maintains one Debt Service Fund. Total revenues were \$3,953,600 and total expenditures were \$3,216,542. The ending fund balance in the Debt Service Fund was \$1,405,814.

Fiduciary Funds

The District has Scholarship Funds and a Student Activities Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2008 totaled \$168,700.

General Fund Budgetary Highlights

Over the course of the year, the District revised its initial annual operating budget two times, once in February and just prior to fiscal year end. These budget revisions included three important changes:

- Changes made to account for the final student enrollment that determines how much foundation grant per pupil or State school aid will be received during the fiscal year.
- Final changes made in late May and approved in mid-June to more closely reflect anticipated revenues.
- Final changes made in late May and approved in mid-June for increases in various appropriations to prevent budget overruns.

Although the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$601,404 the actual ending result was an excess of revenues of \$98,560.

- Total actual revenues were \$291,314 lower than expected. Most of this shortfall was due to lower property tax collections than were anticipated. Final State aid was also lower somewhat lower than anticipated by \$66,856.
- Total actual expenditures and transfers were \$213,086 over budget. An unexpected March 2007 billing from Kent Intermediate School District in the amount of \$100,047 for transportation services contributed to this negative budget variance. Contracted Special Education Transportation expenses for the fiscal year also came in \$115,785 higher than anticipated.

Capital Asset and Debt Administration

Capital Assets

By the end of 2007-08, the District had invested \$44.7 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.04 million.

The District's fiscal year 2008-09 capital budget calls for spending on capital projects in the following areas:

- \$99,600 to update software that controls environmental systems at the Intermediate School.
- \$20,000 to drill a replacement domestic water well at Marne Elementary School.
- \$18,000 to connect the Daycare and Learning Center to municipal sanitary sewer service.
- \$51,521 to improve the quality of electrical current (power) distributed inside the High School.
- \$48,343 for parking lot pavement repairs at various school buildings.
- \$14,965 for furniture replacement at various school buildings.
- \$312,000 to replace instructional hardware (computers), network switches, servers, printers and to install new data projectors at various school buildings.

At June 30, 2008, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$27.7 million. This represents a decrease of approximately \$1.04 million from the previous year-end.

Land	\$ 1,108,000
Land improvements	518,478
Buildings and additions	25,122,304
Furniture and equipment	246,497
Vehicles	<u>748,861</u>
Net Capital Assets	<u>\$ 27,744,140</u>

Long-Term Debt

At year end, the District had \$31.8 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$1.66 million from last year. The District continued to pay down its debt, retiring \$1.67 million of outstanding bonds and \$245,000 of employee retirement payments.

The District's bond rating (Standard & Poors) for General Obligation, Unlimited Tax debt remains "AAA". This rating is a carryover of the State of Michigan's bond rating since the general obligation bonds issued by the school district were qualified by the State at the time of issuance.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district's boundaries. The District's other long term obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Major changes impacting State tax policies were approved by the State Legislature and are impacting the 2008-09 fiscal year. Taxes such as the Michigan Single Business Tax have been eliminated and replaced with the Michigan Business Tax. The new Michigan Business Tax exempts personal property classified as industrial property from the 18 mill non-homestead tax levy that previously was remitted directly to local school districts. Commercial personal property is exempt from 12 mills of the 18 mill levy under the new tax law. The elimination of school district revenues from these personal property taxes is to be made up through State School Aid for the most part, except for approximately \$120,000 in annual Renaissance zone industrial personal property taxes which will be eliminated starting in fiscal 2008-09.
- Negotiated contract agreements are in place with teacher and support staff unions representing 350 employees. Those agreements will terminate at the end of the 2008-09 fiscal year. The agreement with the teacher's union includes a salary provision which will impact the 2008-09 and 2009-10 fiscal years. That provision will require that teacher salary steps increase by 1.5 times rather than the traditional 1.0 rate of increase in 2008-09 and 2009-10. The estimated cost of the additional salary step increase for the two years is \$500,000. The district will need to negotiate new contract agreements with the teacher and support staff unions covering the 2009-10 fiscal year.
- Cost increases exceeding the general rate of inflation continue to be expected for the district relative to health care and for pension contribution obligations in 2008-09 and beyond. These costs represent a significant portion of the District's budget and their rate of increase is a concern to management. Surges in prices of energy commodities such as diesel, gasoline and natural gas have abated and prices have even declined recently. If this trend is sustained, it may provide some relief from the rate of growth in overall operating costs going forward. Prices for some commodities reached record levels on an inflation adjusted basis during the 2007-08 fiscal year.

- The State of Michigan continues in an economic slump that has been in place for the past seven (7) years. At the time that slump appears to be on the verge of worsening. The Big 3 automakers are major employers and taxpayers in Michigan. Some or all of the Big 3 face the threat of bankruptcy if current sales trends for them do not improve. State school aid funding and property and sales tax collections that help to subsidize the State school aid fund for K-12 schools are sensitive to trends in economic growth in Michigan. Weak economic performance in Michigan generally means little or no growth in the State foundation grant (State school aid) to K-12 schools. A State Aid increase of \$104 per student (about 1.4%) was enacted by the State legislature for fiscal 2008-09 school year. The persistent weakness of the state economy along with an across the board weakening of real estate values in Michigan is a growing concern. The outlook for further increases in per pupil funding in the future and the State's ability to fund them are more questionable now than at any time in recent memory. Growth in property tax valuations or assessments is expected to be noticeably less than historical rates of increase or may even be flat in some cases next year. Delinquency rates on property taxes are also increasing. These factors may lead to less or even reduced property tax collections by the State and local school districts. During the past fiscal year, there was a noticeable increase in delinquent personal property taxes owed to the school district.
- The District's fund balance in its primary operating fund, the General Fund, increased by \$98,560 during the 2007-08 fiscal year to \$5,878,471. This latest increase continues a multi year uptrend in fund balance. The current fund balance represents 17.0% of the 2008-09 General Fund operational budget. A fund balance at the 17.0% level is viewed as positive. It should help to maintain the financial stability of the school district in the event of unexpected or adverse financial developments such as a mid year reduction in State School Aid.
- Budget reductions totaling \$1.6 million were implemented at the start of the 2005-06 fiscal year to maintain or improve the financial position of the school district's General Fund. Earlier reductions in fiscal 2004-05 totaled more than \$1.3 million. These recent year budget reductions totaling a combined \$2.9 million remain mostly in place today in the District. Both management and the Board of Education are committed to the goals of maintaining the financial stability of the school district and to maintaining a solid core of instructional programming and opportunities for all students.
- The financial strength of the District has improved significantly during the past three years from the budget reductions, mentioned previously. However, the budget for the district's General Fund projects a nearly \$2 million deficit for the 2008-09 fiscal year. At this time, it is anticipated that the district's fund balance in the General Fund will decline to the 11 – 13% level during 2008-09. As mentioned previously, the 2008-09 and 2009-10 fiscal years include salary step increases of 1.5 times the normal rate. These cost increases will have a significant financial impact on the school district's General Fund budget. The outlook for increases in State Aid funding for the 2009-10 school year does not look promising at the present time.
- The current bond ratings for the school district are A1 from Moodys and A from Standard and Poors.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Zeitter, Assistant Superintendent, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544. Contact by e-mail: rzeitter@khps.org.

BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash	\$ 1,050
Cash equivalents, deposits and investments (Note B)	6,685,656
Receivables:	
Taxes (Note C)	114,735
Accounts	1,705
Due from other governmental units (Note C)	4,074,194
Inventory (Note A)	96,912
Prepaid expenses	33,905
Total Current Assets	<u>11,008,157</u>
Noncurrent Assets	
Capital assets (Note E)	44,756,237
Less accumulated depreciation	<u>(17,012,097)</u>
Total Noncurrent Assets	<u>27,744,140</u>
Total Assets	<u>38,752,297</u>
Liabilities	
Current Liabilities	
Accounts payable	523,182
Due to other governmental units	804,814
Accrued interest payable	244,294
Salaries payable	1,675,244
Deferred revenue	546,933
Current portion of long term obligations	<u>2,085,000</u>
Total Current Liabilities	<u>5,879,467</u>
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	30,790,000
Early retirement incentive	419,804
Accumulated sick leave	547,681
Unamortized bond premium	221,695
Current portion of long term obligations	<u>(2,085,000)</u>
Total Noncurrent Liabilities	<u>29,894,180</u>
Total Liabilities	<u>35,773,647</u>
Net Assets	
Invested in capital assets, net of related debt	(3,267,555)
Restricted for:	
Debt service	1,180,058
Unrestricted	<u>5,066,147</u>
Total Net Assets	<u><u>\$ 2,978,650</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 19,821,188	\$ 80,763	\$ 3,948,570	\$(15,791,855)
Supporting services	12,780,290	31,315	853,804	(11,895,171)
Community services	704,052	360,179	15,116	(328,757)
Food service	1,466,777	752,185	633,576	(81,016)
Athletics	471,846	161,899	-	(309,947)
Interest expense	1,535,409	-	-	(1,535,409)
Total Governmental Activities	\$ 36,779,562	\$ 1,386,341	\$ 5,451,066	(29,942,155)
General Revenues				
Taxes:				
Property taxes, levied for general operations				11,467,958
Property taxes, levied for debt service				3,895,054
State school aid, unrestricted				15,399,232
Interest and investment earnings				348,335
Other				284,950
Total General Revenues				31,395,529
Change in Net Assets				1,453,374
Net Assets - Beginning of Year				1,525,276
Net Assets - End of Year				\$ 2,978,650

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash	\$ 400	\$ 650	\$ 1,050
Cash equivalents, deposits and investments (Note B)	5,228,453	1,457,203	6,685,656
Receivables:			
Taxes (Note C)	96,197	18,538	114,735
Accounts	1,705	-	1,705
Due from other funds (Note D)	10,045	-	10,045
Due from other governmental units (Note C)	4,063,824	10,370	4,074,194
Inventory (Note A)	77,167	19,745	96,912
Prepaid expenditures	33,905	-	33,905
Total Assets	<u><u>\$ 9,511,696</u></u>	<u><u>\$ 1,506,506</u></u>	<u><u>\$ 11,018,202</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 523,182	\$ -	\$ 523,182
Due to other funds (Note D)	-	10,045	10,045
Due to other governmental units	804,814	-	804,814
Salaries payable	1,675,244	-	1,675,244
Deferred revenue	629,985	31,683	661,668
Total Liabilities	<u>3,633,225</u>	<u>41,728</u>	<u>3,674,953</u>
Fund Balances			
Reserved for:			
Debt service	-	1,405,814	1,405,814
Unreserved:			
Undesignated, reported in:			
General fund	5,878,471	-	5,878,471
Special revenue funds	-	58,964	58,964
Total Fund Balances	<u>5,878,471</u>	<u>1,464,778</u>	<u>7,343,249</u>
Total Liabilities and Fund Balances	<u><u>\$ 9,511,696</u></u>	<u><u>\$ 1,506,506</u></u>	<u><u>\$ 11,018,202</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total governmental fund balances			\$ 7,343,249
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$44,756,237 and accumulated depreciation is \$17,012,097.			
			27,744,140
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.			
			(221,695)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds		\$(30,790,000)	
Early retirement incentive		(419,804)	
Accumulated sick leave		(547,681)	
			(31,757,485)
Accrued interest is not included as a liability in governmental funds.			
			(244,294)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			114,735
Total net assets - governmental activities			<u><u>\$ 2,978,650</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	General	Nonmajor	Total
Revenues			
Local sources	\$ 12,469,558	\$ 4,872,565	\$ 17,342,123
State sources	16,911,450	86,799	16,998,249
Federal sources	1,176,775	546,777	1,723,552
Interdistrict sources	2,128,497	-	2,128,497
Total Revenues	32,686,280	5,506,141	38,192,421
Expenditures			
Current:			
Instruction	19,034,531	-	19,034,531
Supporting services	12,533,438	-	12,533,438
Community services	695,726	-	695,726
Food service	-	1,453,530	1,453,530
Athletics	-	462,999	462,999
Debt service:			
Principal repayment	-	1,670,000	1,670,000
Interest and fiscal charges	-	1,546,542	1,546,542
Interdistrict	8,404	-	8,404
Total Expenditures	32,272,099	5,133,071	37,405,170
Excess of Revenues Over Expenditures	414,181	373,070	787,251
Other Financing Sources (Uses)			
Other	(6,212)	-	(6,212)
Transfers in	-	309,409	309,409
Transfers out	(309,409)	-	(309,409)
Total Other Financing Sources (Uses)	(315,621)	309,409	(6,212)
Net Change In Fund Balances	98,560	682,479	781,039
Fund Balances, Beginning of Year	5,779,911	782,299	6,562,210
Fund Balances, End of Year	\$ 5,878,471	\$ 1,464,778	\$ 7,343,249

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 781,039**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

	Capital outlays	\$ -	
	Depreciation expense	<u>(1,040,775)</u>	(1,040,775)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead considered deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities.

28,200

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.

12,317

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

1,670,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid.

11,133

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$254,264) exceeded the amounts used/paid (\$245,724).

(8,540)

Total changes in net assets - governmental activities

\$ 1,453,374

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$12,590,402	\$12,771,544	\$12,469,558	\$ (301,986)
State sources	15,450,580	16,978,306	16,911,450	(66,856)
Federal sources	1,146,775	1,180,113	1,176,775	(3,338)
Interdistrict sources	2,373,106	2,047,631	2,128,497	80,866
Total Revenues	31,560,863	32,977,594	32,686,280	(291,314)
Expenditures				
Current:				
Instruction:				
Basic programs	15,117,570	14,880,960	14,853,503	27,457
Added needs	4,121,184	4,225,071	4,180,771	44,300
Adult education services	26,271	257	257	-
Supporting services:				
Pupil services	2,212,228	2,143,949	2,151,826	(7,877)
Instructional staff services	1,175,442	1,042,817	1,043,173	(356)
General administrative services	700,924	703,142	733,515	(30,373)
School administrative services	2,012,918	1,960,268	1,959,817	451
Business services	686,583	637,414	681,739	(44,325)
Operation and maintenance services	3,496,704	3,125,312	3,122,144	3,168
Pupil transportation services	2,030,665	2,047,224	2,264,510	(217,286)
Central services	564,679	584,535	576,714	7,821
Community services	580,432	699,660	695,726	3,934
Interdistrict	-	8,404	8,404	-
Total Expenditures	32,725,600	32,059,013	32,272,099	(213,086)
Excess (Deficiency) Of Revenues Over Expenditures	(1,164,737)	918,581	414,181	(504,400)
Other Financing Sources (Uses)				
Other	-	(6,612)	(6,212)	400
Transfers out	(341,261)	(310,565)	(309,409)	1,156
Total Other Financing Sources (Uses)	(341,261)	(317,177)	(315,621)	1,556
Net Change In Fund Balances	(1,505,998)	601,404	98,560	(502,844)
Fund Balances, July 1	5,779,911	5,779,911	5,779,911	-
Fund Balances, June 30	\$ 4,273,913	\$ 6,381,315	\$ 5,878,471	\$ (502,844)

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash equivalents, deposits and investments (Note B)	<u>\$ 35,774</u>	<u>\$ 132,926</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 132,926</u>
Net Assets		
Held in trust for: Individuals and organizations	<u>\$ 35,774</u>	

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2008

	Private Purpose Trust Fund
Additions	
Interest earnings	\$ 1,158
Donations	1,130
	<hr/>
Total Additions	2,288
	<hr/>
Deductions	
Endowment activities - scholarships	2,400
	<hr/>
Change In Net Assets	(112)
	<hr/>
Net Assets, Beginning of Year	35,886
	<hr/>
Net Assets, End of Year	\$ 35,774
	<hr/> <hr/>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Note A – Summary of Significant Accounting Policies

Kenowa Hills Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,559 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kenowa Hills Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kenowa Hills Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Kenowa Hills Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Assistant Superintendent for Business to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2008 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2008, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$419,804 and \$547,681, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools authorized by the Surplus Funds Investment Pool Act.

Balances at June 30, 2008 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 6,685,656
Fiduciary Funds:	
Trust and Agency Funds	<u>168,700</u>
	<u>\$ 6,854,356</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Chemical Bank West
2. Mercantile Bank
3. Chase J.P. Morgan Bank, N.A.

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2008 balances are detailed as follows:

Cash equivalents	\$ 5,523,506
Deposits	<u>1,330,850</u>
	<u>\$ 6,854,356</u>

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$6,854,356 and the bank balance was \$7,754,746. Of the bank balance, \$1,505,814 was covered by federal depository insurance and \$6,248,932 was uninsured.

Investments

As of June 30, 2008 the District had no surplus funds that were classified as investments under GASB Statement No. 40. The District's policies to minimize investment risk are as follows:

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by State law.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market accounts, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2007 ad valorem State Education Taxes generated within the Kenowa Hills Public School District, and paid to the State of Michigan, totaled \$6,566,019.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2007 and September, 2007. The 2007-08 "Foundation Allowance" for Kenowa Hills Public Schools was \$7,518 for 3,543 "Full Time Equivalent" students, generating \$16,169,126 in state aid payments to the District, of which \$2,989,207 was paid to the District in July and August, 2008 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 (the tax lien date) by the City of Walker and the Charter Townships of Alpine, Plainfield and Tallmadge and the Township of Wright, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Fund	Total
2007	\$ 69,215	\$ 12,920	\$ 82,135
2006	23,255	3,888	27,143
2005	3,727	1,730	5,457
	<u>\$ 96,197</u>	<u>\$ 18,538</u>	<u>\$ 114,735</u>

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Kenowa Hills Public Schools' electors had previously (May 8, 2007) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2007.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

The District levied 3.36 mills in 2007 for debt service purposes.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases are limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from/to other funds representing interfund receivables and payables from other expenditures not yet reimbursed at June 30, 2008, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Special Revenue Fund:		
Food Service Fund	\$ 10,045	\$ —
Special Revenue Fund		
Food Service Fund:		
General Fund	—	10,045
Total All Funds	<u>\$ 10,045</u>	<u>\$ 10,045</u>

Transfers between funds during the year ended June 30, 2008 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 8,740
Athletics Fund	—	300,669
Total General Fund	—	309,409
Special Revenue Funds		
Food Service Fund:		
General Fund	8,740	—
Athletics Fund:		
General Fund	300,669	—
Total Special Revenue Funds	309,409	—
Total All Funds	<u>\$ 309,409</u>	<u>\$ 309,409</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

The General Fund transfer to the Food Service Fund was made to allocate at-risk State aid. The General Fund transfer to the Athletics Fund was made to pay the General Fund share of the District's athletics program for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balances July 1, 2007	Additions	Deductions	Balances June 30, 2008
Capital assets not depreciated:				
Land	\$ 1,108,000	\$ —	\$ —	\$ 1,108,000
Capital assets being depreciated:				
Land improvements	1,186,227	—	—	1,186,227
Buildings and additions	38,426,954	—	—	38,426,954
Furniture and equipment	1,696,703	—	—	1,696,703
Vehicles	2,338,353	—	—	2,338,353
	<u>44,756,237</u>	<u>—</u>	<u>—</u>	<u>44,756,237</u>
Totals at historical cost	44,756,237	\$ —	\$ —	44,756,237
Less accumulated depreciation for:				
Land improvements	616,716	\$ 51,033	\$ —	667,749
Buildings and additions	12,514,709	789,941	—	13,304,650
Furniture and equipment	1,401,148	49,058	—	1,450,206
Vehicles	1,438,749	150,743	—	1,589,492
	<u>15,971,322</u>	<u>\$1,040,775</u>	<u>\$ —</u>	<u>17,012,097</u>
Total accumulated depreciation	15,971,322	\$1,040,775	\$ —	17,012,097
Net Capital Assets	<u>\$ 28,784,915</u>			<u>\$ 27,744,140</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 801,397
Supporting services	208,155
Community services	8,326
Food service	14,050
Athletics	8,847
	<u>\$ 1,040,775</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2008 are summarized as follows:

	Bond Issues	Early Retirement Incentive	Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt				
Debt Service Funds	\$ 1,405,814	\$ —	\$ —	\$ 1,405,814
Amounts To Be Provided For Retirement Of Long-Term Debt				
General Fund	—	419,804	547,681	967,485
Debt Service Funds	29,384,186	—	—	29,384,186
Total Amounts Available and To Be Provided	\$ 30,790,000	\$ 419,804	\$ 547,681	\$ 31,757,485

Changes in long-term debt for the year ended June 30, 2008 are summarized as follows:

	Debt Outstanding July 1, 2007	Debt Added	Debt Retired	Debt Outstanding June 30, 2008
General obligation bonds:				
March 17, 2005 Refunding	\$ 32,460,000	\$ —	\$ 1,670,000	\$ 30,790,000
Early retirement incentive	522,961	74,673	177,830	419,804
Accumulated sick leave	435,984	179,591	67,894	547,681
	\$ 33,418,945	\$ 254,264	\$ 1,915,724	\$ 31,757,485

Long-term bonds outstanding at June 30, 2008 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$34,490M General Obligation Refunding Bonds				
March 17, 2005:				
Annual maturities of \$1,190M to \$2,370M	May 1, 2026	3.25 – 5.00	<u>\$ 30,790,000</u>	<u>\$ 1,835,000</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 1,835,000	\$ 1,465,762	\$ 3,300,762
2010	1,895,000	1,406,125	3,301,125
2011	1,970,000	1,330,325	3,300,325
2012	2,050,000	1,251,525	3,301,525
2013	2,150,000	1,149,025	3,299,025
2014	2,255,000	1,041,525	3,296,525
2015	2,370,000	928,775	3,298,775
2016	1,190,000	810,275	2,000,275
2017	1,250,000	753,750	2,003,750
2018	1,310,000	691,250	2,001,250
2019	1,375,000	625,750	2,000,750
2020	1,445,000	557,000	2,002,000
2021	1,520,000	484,750	2,004,750
2022	1,590,000	408,750	1,998,750
2023	1,670,000	329,250	1,999,250
2024	1,750,000	245,750	1,995,750
2025	1,760,000	158,250	1,918,250
2026	1,405,000	70,250	1,475,250
	<u>\$ 30,790,000</u>	<u>\$ 13,708,087</u>	<u>\$ 44,498,087</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2008 was \$17,813,369. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan-Fixed (MIP-Fixed). Effective January 1, 1990, all new employees are automatically enrolled in the MIP-Graded Plan. Participants in the MIP-Fixed or MIP-Graded Plans receive benefits in addition to those available under the Basic Plan. The contribution rate for MIP-Fixed participants is 3.9% of salary. The contribution rate for MIP-Graded participants is a graduated rate based on total wages: calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. All MIP members may retire at age 46 with 30 years of service; at age 60 with 5 years of service; at age 55 with 15 years of service (with stipulations); at age 60 with 10 years of service (with stipulations); or at age 60 with 5 years of service (with stipulations). Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 17.74% for the fiscal year ended September 30, 2007 and 16.72% for the fiscal year beginning October 1, 2008. The District's contributions to the plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$3,039,414, \$2,969,549, and \$2,660,525, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS uses the aggregate actuarial cost method, and does not make separate measurements of assets and actuarial accrued liability for individual school districts. The actuarial accrued liability at September 30, 2006 (the latest reporting date available expressed as \$ in millions) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$49,136. Net assets available for retirement benefits on that date were \$42,995 leaving an unfunded actuarial accrued liability of \$6,141. The total unfunded actuarial accrued liability decreased by \$3,102 from September 30, 2005 to September 30, 2006. At September 30, 2006 the funded ratio of actuarial accrued liability was 87.5%; covered payroll totaled \$9,806, and unfunded actuarial accrued liability was 62.6% of covered payroll.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above. At September 30, 2006, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole (expressed as \$ in millions) was \$25,387. The MPSERS net assets available for these benefits were \$630 leaving an unfunded actuarial accrued liability of \$24,757. This is the first year that the State is reporting this liability, which is now required to be disclosed in compliance with Governmental Accounting Standards Board (GASB) Statement No. 43. At September 30, 2006 the funded ratio of actuarial liability was 2.5%; covered payroll totaled \$9,806, and unfunded actuarial liability was 252.5% of covered payroll.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2007 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2008

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2008, there were no material pending claims against the District. The District paid \$100,509 in premiums to the Fund for the year ended June 30, 2008.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2008, there were no material pending claims against the District. The District paid \$79,116 in premiums to the Fund for the year ended June 30, 2008.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I – Stewardship, Compliance and Accountability

The following District funds had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2008:

	Budget	Actual	Unfavorable Variance
General Fund			
Supporting Services:			
Pupil services	\$ 2,143,949	\$ 2,151,826	\$ 7,877
Instructional staff services	1,042,817	1,043,173	356
General administrative services	703,142	733,515	30,373
Business services	637,414	681,739	44,325
Pupil transportation services	2,047,224	2,264,510	217,286
Special Revenue Fund			
Food Service Fund	1,416,900	1,453,530	36,630

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 400	\$ 400
Cash equivalents, deposits and investments	5,228,453	5,149,089
Receivables:		
Taxes	96,197	68,681
Accounts	1,705	1,254
Due from other funds	10,045	10,715
Due from other governmental units	4,063,824	3,378,550
Inventory	77,167	61,563
Prepaid expenditures	33,905	517,963
Total Assets	<u><u>\$ 9,511,696</u></u>	<u><u>\$ 9,188,215</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 523,182	\$ 495,186
Due to other funds	-	3,000
Due to other governmental units	804,814	748,994
Salaries payable	1,675,244	1,597,774
Deferred revenue	629,985	563,350
Total Liabilities	<u>3,633,225</u>	<u>3,408,304</u>
Fund Balances		
Unreserved:		
Undesignated	<u>5,878,471</u>	<u>5,779,911</u>
Total Liabilities and Fund Balances	<u><u>\$ 9,511,696</u></u>	<u><u>\$ 9,188,215</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2008 and 2007

	2008	2007
Local sources:		
Property taxes:		
Current property taxes	\$ 11,265,758	\$ 10,730,372
Delinquent property taxes	38,714	18,082
Other property taxes	101,796	44,329
Interest on delinquent taxes	34,174	16,089
	<u>11,440,442</u>	<u>10,808,872</u>
Interest earnings:		
Interest on deposits and investments	284,224	374,300
Other local revenue:		
Adult/community education fees	287,740	101,248
Driver education fees	38,755	39,490
Preschool/childcare fees	72,439	61,672
Transportation fees	31,315	34,194
Copy center fees	54,178	51,305
Class fees	42,008	30,024
Rental of school facilities	49,816	49,814
Donations	3,697	5,672
Telephone commission reimbursements	-	56,205
Beverage consortium commissions	68,385	71,556
Sale of school property	50	5,975
Insurance refunds	57,229	40,316
Refunds of prior years expenditures	9,739	112,241
Miscellaneous	29,541	62,089
	<u>744,892</u>	<u>721,801</u>
Total local sources	12,469,558	11,904,973
State sources:		
State school aid	16,042,530	16,485,489
Special education - transportation	714,124	452,190
Special education - itinerants	139,680	58,102
Other	15,116	2,277
	<u>16,911,450</u>	<u>16,998,058</u>
Total state sources	16,911,450	16,998,058
Federal sources:		
Title I	281,703	210,569
Title I - migrant	62,556	50,373
Title IIA	90,192	129,201
Title IID	2,395	4,669
Title III	29,277	18,267
Title V	726	726
Drug free schools	7,255	8,482
I.D.E.A. program	690,624	651,939
Medicaid - school based	7,047	2,542
Literacy grant	-	2,678
Learn and serve grant	5,000	-
SPSR Grant	-	5,000
	<u>1,176,775</u>	<u>1,084,446</u>
Total federal sources	1,176,775	1,084,446

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interdistrict sources:		
Special education - county	\$ 1,855,525	\$ 1,777,370
Special education - local school districts	48,581	17,838
Special education - itinerants	23,830	-
Durant settlement reimbursements	11,606	11,606
Medicaid fee for service	188,955	141,180
Total interdistrict sources	<u>2,128,497</u>	<u>1,947,994</u>
Total Revenues	<u><u>\$ 32,686,280</u></u>	<u><u>\$ 31,935,471</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 4,834,858	\$ 4,667,560
Employee benefits	2,266,647	2,224,322
Purchased services	133,830	105,971
Supplies	187,268	138,919
Capital outlay	58,304	105,389
Miscellaneous	4,087	6,858
	<u>7,484,994</u>	<u>7,249,019</u>
Middle school:		
Salaries	1,452,312	1,378,309
Employee benefits	706,581	667,859
Purchased services	21,136	42,641
Supplies	88,087	62,194
Capital outlay	155,984	54,161
Miscellaneous	3,247	2,865
	<u>2,427,347</u>	<u>2,208,029</u>
High school:		
Salaries	2,987,739	2,900,779
Employee benefits	1,404,893	1,377,137
Purchased services	90,581	86,223
Supplies	229,864	162,242
Capital outlay	109,194	50,291
Miscellaneous	13,669	10,305
	<u>4,835,940</u>	<u>4,586,977</u>
Preschool:		
Salaries	55,094	51,109
Employee benefits	19,449	17,605
Purchased services	1,241	1,254
Supplies	872	979
Miscellaneous	524	296
	<u>77,180</u>	<u>71,243</u>
Summer School:		
Salaries	22,950	-
Employee benefits	5,092	-
	<u>28,042</u>	<u>-</u>
Total basic programs	<u>14,853,503</u>	<u>14,115,268</u>
Added needs:		
Special education:		
Salaries	1,578,378	1,379,374
Employee benefits	743,702	676,390
Purchased services	44,026	49,729
Supplies	14,458	15,800
Capital outlay	1,961	475
Miscellaneous	1,344	1,713
Payments to other districts	573,452	496,638
	<u>2,957,321</u>	<u>2,620,119</u>

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Compensatory education:		
Salaries	\$ 703,141	\$ 654,783
Employee benefits	302,432	289,030
Purchased services	12,299	30,768
Supplies	30,726	8,680
Miscellaneous	512	899
	<u>1,049,110</u>	<u>984,160</u>
Career and technology education:		
Salaries	101,576	97,938
Employee benefits	47,847	46,916
Purchased services	972	1,914
Supplies	23,945	16,465
Capital outlay	-	135
	<u>174,340</u>	<u>163,368</u>
Total added needs	4,180,771	3,767,647
Adult basic education:		
Salaries	-	12,142
Employee benefits	257	3,059
Purchased services	-	9,633
Total adult basic education	257	24,834
Pupil services:		
Attendance services:		
Salaries	41,416	40,804
Employee benefits	23,433	21,983
	<u>64,849</u>	<u>62,787</u>
Guidance services:		
Salaries	451,792	422,121
Employee benefits	211,559	197,190
Purchased services	969	2,131
Supplies	-	2,116
Miscellaneous	455	242
	<u>664,775</u>	<u>623,800</u>
Health services:		
Employee benefits	316	316
Purchased services	38,273	38,695
Supplies	461	462
Payments to other districts	71,978	61,931
	<u>111,028</u>	<u>101,404</u>
Psychological services:		
Purchased services	975	1,735
Supplies	958	1,618
Miscellaneous	169,281	165,346
	<u>171,214</u>	<u>168,699</u>
Speech pathology services:		
Salaries	-	2,100
Employee benefits	-	166
Purchased services	652	1,547

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Speech pathology services: (Continued)		
Supplies	\$ 1,677	\$ 1,164
Payments to other districts	325,334	312,016
	<u>327,663</u>	<u>316,993</u>
Social worker services:		
Employee benefits	757	409
Purchased services	1,192	1,401
Supplies	1,751	1,738
Miscellaneous	200	200
Payments to other districts	538,214	515,910
	<u>542,114</u>	<u>519,658</u>
Teacher consultant services:		
Salaries	22,307	22,784
Employee benefits	10,386	9,513
Purchased services	1,451	2,027
Supplies	357	254
Payments to other districts	206,262	210,334
	<u>240,763</u>	<u>244,912</u>
Other pupil services:		
Salaries	9,657	8,747
Employee benefits	2,380	2,001
Purchased services	7,767	9,606
Supplies	6,164	8,110
Capital outlay	-	685
Miscellaneous	3,452	1,087
	<u>29,420</u>	<u>30,236</u>
Total pupil services	2,151,826	2,068,489
Instructional staff services:		
Salaries	51,816	32,657
Employee benefits	12,990	7,504
Purchased services	201,091	210,308
Supplies	5,921	11,669
Miscellaneous	2,151	1,404
	<u>273,969</u>	<u>263,542</u>
Educational media services:		
Salaries	316,298	368,885
Employee benefits	134,331	154,744
Supplies	45,951	48,633
Capital outlay	1,284	-
Miscellaneous	29,710	29,495
	<u>527,574</u>	<u>601,757</u>
Supervision and direction of instruction:		
Salaries	166,176	160,212
Employee benefits	68,870	72,231
Purchased services	4,353	4,245
Supplies	2,131	1,561
Miscellaneous	100	125
	<u>241,630</u>	<u>238,374</u>
Total instructional staff services	1,043,173	1,103,673

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
General administrative services:		
Board of education:		
Salaries	\$ 3,990	\$ 3,293
Employee benefits	305	252
Purchased services	73,526	61,061
Miscellaneous	8,596	8,288
	<u>86,417</u>	<u>72,894</u>
Executive administration:		
Salaries	409,684	383,216
Employee benefits	179,787	166,773
Purchased services	25,037	16,229
Supplies	9,374	4,631
Capital outlay	10,240	1,559
Miscellaneous	12,976	12,183
	<u>647,098</u>	<u>584,591</u>
Total general administrative services	733,515	657,485
School administrative services:		
Office of the principal:		
Salaries	1,316,933	1,309,416
Employee benefits	582,243	574,992
Purchased services	34,727	26,845
Supplies	5,291	5,541
Capital outlay	2,471	29,451
Miscellaneous	18,152	17,038
	<u>1,959,817</u>	<u>1,963,283</u>
Total school administrative services		
Business services:		
Fiscal services:		
Salaries	263,735	250,488
Employee benefits	107,552	103,785
Purchased services	17,308	18,834
Supplies	4,755	3,981
Miscellaneous	298	359
	<u>393,648</u>	<u>377,447</u>
Internal services:		
Salaries	75,610	75,762
Employee benefits	48,088	40,930
Purchased services	22,055	18,545
Supplies	28,711	16,999
Capital outlay	-	-
	<u>174,464</u>	<u>152,236</u>
Other business services:		
Purchased services	6,798	7,131
Supplies	(7,909)	16,197
Miscellaneous	114,738	98,943
	<u>113,627</u>	<u>122,271</u>
Total business services	681,739	651,954

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Operation and maintenance services:		
Operation and maintenance:		
Salaries	\$ 833,374	\$ 825,445
Employee benefits	490,913	472,397
Purchased services	867,551	951,848
Supplies	796,018	699,916
Capital outlay	24,223	49,849
Miscellaneous	4,169	4,030
	<u>3,016,248</u>	<u>3,003,485</u>
Security services:		
Salaries	66,058	61,242
Employee benefits	39,838	38,071
	<u>105,896</u>	<u>99,313</u>
Total operation and maintenance services	3,122,144	3,102,798
Pupil transportation services:		
Pupil transportation:		
Salaries	716,186	684,994
Employee benefits	286,578	286,437
Purchased services	36,170	37,300
Supplies	322,533	254,057
Capital outlay	4,004	3,366
Miscellaneous	1,915	3,571
Payments to other districts	897,124	726,093
Total pupil transportation services	<u>2,264,510</u>	<u>1,995,818</u>
Central services:		
Communications services:		
Purchased services	64,533	61,742
Staff/personnel services:		
Purchased services	39,380	15,443
Supplies	1,732	841
	<u>41,112</u>	<u>16,284</u>
Technology services:		
Salaries	256,646	244,914
Employee benefits	133,985	113,523
Purchased services	34,205	56,388
Supplies	22,944	19,030
Capital outlay	23,289	4,423
	<u>471,069</u>	<u>438,278</u>
Total central services	576,714	516,304

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Community services:		
Community recreation:		
Salaries	\$ 165,039	\$ 166,500
Employee benefits	70,252	58,967
Purchased services	12,631	11,759
Supplies	13,043	12,914
Miscellaneous	7,162	9,292
	<u>268,127</u>	<u>259,432</u>
Performing Arts Center:		
Salaries	49,467	48,165
Employee benefits	24,166	17,377
Purchased services	9,242	8,482
Supplies	3,798	3,985
Capital outlay	5,989	6,024
	<u>92,662</u>	<u>84,033</u>
Custody and care of children:		
Salaries	236,529	5,600
Employee benefits	64,891	3,448
Purchased services	3,578	9
Supplies	20,260	285
Capital outlay	4,730	626
Miscellaneous	2,577	796
	<u>332,565</u>	<u>10,764</u>
Non-public school pupils:		
Purchased services	2,372	-
Total community services	<u>695,726</u>	<u>354,229</u>
Interdistrict:		
Other	<u>8,404</u>	<u>-</u>
Total Expenditures	<u><u>\$ 32,272,099</u></u>	<u><u>\$ 30,321,782</u></u>

NONMAJOR GOVERNMENTAL FUNDS

KENOWA HILLS PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Food</u>	<u>Athletics</u>	<u>2005</u>	
Assets	<u>Service</u>		<u>Refunding</u>	<u>Total</u>
Cash	\$ 650	\$ -	\$ -	\$ 650
Cash equivalents, deposits and investments	51,389	-	1,405,814	1,457,203
Taxes receivable	-	-	18,538	18,538
Due from other governmental units	10,370	-	-	10,370
Inventory	19,745	-	-	19,745
Total Assets	<u>\$ 82,154</u>	<u>\$ -</u>	<u>\$ 1,424,352</u>	<u>\$ 1,506,506</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 10,045	\$ -	\$ -	\$ 10,045
Deferred revenue	13,145	-	18,538	31,683
Total Liabilities	<u>23,190</u>	<u>-</u>	<u>18,538</u>	<u>41,728</u>
Fund Balances				
Reserved for debt service	-	-	1,405,814	1,405,814
Unreserved:				
Undesignated	58,964	-	-	58,964
Total Fund Balances	<u>58,964</u>	<u>-</u>	<u>1,405,814</u>	<u>1,464,778</u>
Total Liabilities and Fund Balances	<u>\$ 82,154</u>	<u>\$ -</u>	<u>\$ 1,424,352</u>	<u>\$ 1,506,506</u>

KENOWA HILLS PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2008

	Special Revenue		Debt Service	
	Food Service	Athletics	2005 Refunding	Total
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 3,894,370	\$ 3,894,370
Interest earnings	4,450	431	59,230	64,111
Sales and admissions	752,185	161,899	-	914,084
Total local sources	756,635	162,330	3,953,600	4,872,565
State sources	86,799	-	-	86,799
Federal sources	546,777	-	-	546,777
Total Revenues	1,390,211	162,330	3,953,600	5,506,141
Expenditures				
Current:				
Food service	1,453,530	-	-	1,453,530
Athletics	-	462,999	-	462,999
Debt service:				
Principal repayment	-	-	1,670,000	1,670,000
Interest and fiscal charges	-	-	1,546,542	1,546,542
Total Expenditures	1,453,530	462,999	3,216,542	5,133,071
Excess (Deficiency) of Revenues Over Expenditures	(63,319)	(300,669)	737,058	373,070
Other Financing Sources				
Transfers in	8,740	300,669	-	309,409
Net Change In Fund Balances	(54,579)	-	737,058	682,479
Fund Balances, July 1	113,543	-	668,756	782,299
Fund Balances, June 30	\$ 58,964	\$ -	\$ 1,405,814	\$ 1,464,778

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 8,000	\$ 4,450	\$ (3,550)
Sales and admissions	<u>777,700</u>	<u>752,185</u>	<u>(25,515)</u>
Total local sources	785,700	756,635	(29,065)
State sources	82,000	86,799	4,799
Federal sources	<u>541,400</u>	<u>546,777</u>	<u>5,377</u>
Total Revenues	<u>1,409,100</u>	<u>1,390,211</u>	<u>(18,889)</u>
Expenditures			
Current:			
Food service	<u>1,416,900</u>	<u>1,453,530</u>	<u>(36,630)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,800)</u>	<u>(63,319)</u>	<u>(55,519)</u>
Other Financing Sources			
Transfers in	<u>7,800</u>	<u>8,740</u>	<u>940</u>
Net Change In Fund Balances	-	(54,579)	(54,579)
Fund Balances, July 1	<u>113,543</u>	<u>113,543</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 113,543</u></u>	<u><u>\$ 58,964</u></u>	<u><u>\$ (54,579)</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 467	\$ 431	\$ 36
Sales and admissions	<u>160,966</u>	<u>161,899</u>	<u>(933)</u>
Total local sources	<u>161,433</u>	<u>162,330</u>	<u>897</u>
Expenditures			
Current:			
Athletics	<u>463,258</u>	<u>462,999</u>	<u>259</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(301,825)</u>	<u>(300,669)</u>	<u>1,156</u>
Other Financing Sources			
Transfers in	<u>301,825</u>	<u>300,669</u>	<u>(1,156)</u>
Net Change In Fund Balances	-	-	-
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 650	\$ 650
Cash equivalents, deposits and investments	51,389	100,138
Due from other governmental units	10,370	22,166
Inventory	<u>19,745</u>	<u>19,266</u>
Total Assets	<u><u>\$ 82,154</u></u>	<u><u>\$ 142,220</u></u>
 Liabilities and Fund Balances		
Liabilities		
Due to other funds	\$ 10,045	\$ 10,715
Deferred revenue	<u>13,145</u>	<u>17,962</u>
Total Liabilities	<u>23,190</u>	<u>28,677</u>
 Fund Balances		
Unreserved:		
Undesignated	<u>58,964</u>	<u>113,543</u>
Total Liabilities and Fund Balances	<u><u>\$ 82,154</u></u>	<u><u>\$ 142,220</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 424,214	\$ 439,741
Adult lunches and banquets	24,453	18,613
Milk	4,334	5,046
Ala carte	233,571	228,992
Other	65,613	73,588
	<u>752,185</u>	<u>765,980</u>
Interest earnings:		
Interest on deposits and investments	4,450	10,316
Total local sources	<u>756,635</u>	<u>776,296</u>
State sources	86,799	81,749
Federal sources	<u>546,777</u>	<u>511,932</u>
Total Revenues	<u>1,390,211</u>	<u>1,369,977</u>
Expenditures		
Current:		
Food service:		
Salaries	497,852	486,323
Employee benefits	208,412	209,857
Purchased services	31,076	26,556
Supplies	698,282	646,375
New equipment and furniture	14,766	20,968
Miscellaneous	3,142	2,749
	<u>1,453,530</u>	<u>1,392,828</u>
Total Expenditures	<u>1,453,530</u>	<u>1,392,828</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(63,319)</u>	<u>(22,851)</u>
Other Financing Sources		
Transfers in	<u>8,740</u>	<u>7,800</u>
Net Change In Fund Balances	(54,579)	(15,051)
Fund Balances, July 1	<u>113,543</u>	<u>128,594</u>
Fund Balances, June 30	<u><u>\$ 58,964</u></u>	<u><u>\$ 113,543</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Liabilities and Fund Balances		
Liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Fund Balances		
Unreserved:		
Undesignated	<u><u>-</u></u>	<u><u>-</u></u>
Total Liabilities and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2008 and 2007

	2008	2007
Revenues		
Local sources:		
Sales and admissions:		
Admissions	\$ 82,678	\$ 61,896
Participation fees	45,255	47,205
Tournament revenue	33,349	18,842
Miscellaneous	617	5
	<u>161,899</u>	<u>127,948</u>
Interest earnings:		
Interest on deposits and investments	431	-
	<u>431</u>	<u>-</u>
Total Revenues	<u>162,330</u>	<u>127,948</u>
Expenditures		
Current:		
Athletics:		
Salaries	260,502	246,801
Employee benefits	68,851	64,348
Purchased services	59,535	50,133
Supplies	47,136	39,246
New furniture and equipment	10,783	14,636
Miscellaneous	16,192	14,744
	<u>462,999</u>	<u>429,908</u>
Total Expenditures	<u>462,999</u>	<u>429,908</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(300,669)</u>	<u>(301,960)</u>
Other Financing Sources		
Transfers in	300,669	301,960
	<u>300,669</u>	<u>301,960</u>
Net Change In Fund Balances	-	-
Fund Balances, July 1	-	-
Fund Balances, June 30	<u>\$ -</u>	<u>\$ -</u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENOWA HILLS PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2008

	<u>Balances</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2008</u>
Assets				
Cash equivalents, deposits and investments	\$ 126,861	\$ 381,826	\$ 375,761	\$ 132,926
Due from other funds	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
	<u><u>\$ 129,861</u></u>	<u><u>\$ 381,826</u></u>	<u><u>\$ 378,761</u></u>	<u><u>\$ 132,926</u></u>
Liabilities				
Due to student groups	<u><u>\$ 129,861</u></u>	<u><u>\$ 381,826</u></u>	<u><u>\$ 378,761</u></u>	<u><u>\$ 132,926</u></u>

OTHER INFORMATION

KENOWA HILLS PUBLIC SCHOOLS
Summary of 2007 Taxes Levied and Collected
For the year ended June 30, 2008

	Kent County		
	Cities of		
	Grand Rapids	Walker	Alpine
Taxable Valuations			
Operating	\$ 238,735	\$505,650,936	\$104,853,543
Debt Service	1,259,904	824,791,156	189,545,309
Rates (Mills)			
General Fund			
2005 Debt Service Fund			
Taxes Levied 2007 Rolls			
General Fund	\$ 4,297	\$ 9,099,421	\$ 1,887,363
2005 Debt Service Fund	4,233	2,771,269	636,865
	<u>8,530</u>	<u>11,870,690</u>	<u>2,524,228</u>
Taxes Uncollected 2007 Rolls			
General Fund	-	64,277	3,075
2005 Debt Service Fund	-	11,998	574
	<u>-</u>	<u>76,275</u>	<u>3,649</u>
Taxes Collected 2007 Rolls			
General Fund	4,297	9,035,144	1,884,288
2005 Debt Service Fund	4,233	2,759,271	636,291
	<u>8,530</u>	<u>11,794,415</u>	<u>2,520,579</u>
Delinquent Taxes Collected			
General Fund	-	38,087	117
2005 Debt Service Fund	-	11,714	22
	<u>-</u>	<u>49,801</u>	<u>139</u>
Total Taxes Collected			
General Fund	4,297	9,073,231	1,884,405
2005 Debt Service Fund	4,233	2,770,985	636,313
	<u>8,530</u>	<u>11,844,216</u>	<u>2,520,718</u>
Taxes Uncollected – June 30, 2008			
General Fund:			
2007	\$ -	\$ 64,277	\$ 3,075
2006	-	22,219	942
2005	-	2,608	477
	<u>-</u>	<u>89,104</u>	<u>4,494</u>
2005 Debt Service Fund:			
2007	-	11,998	574
2006	-	3,695	176
2005	-	1,502	89
	<u>-</u>	<u>17,195</u>	<u>839</u>
Total Taxes Uncollected	<u>\$ -</u>	<u>\$ 106,299</u>	<u>\$ 5,333</u>

Ottawa County			
Townships of			
Plainfield	Tallmadge	Wright	Total
\$ 264,315	\$ 7,259,093	\$11,581,646	\$ 629,848,268
1,399,503	50,017,988	30,322,625	1,097,336,485
			18.0000
			3.3600
			<u>21.3600</u>
\$ 4,758	\$ 130,664	\$ 208,470	\$ 11,334,973
4,702	178,896	101,881	3,697,846
<u>9,460</u>	<u>309,560</u>	<u>310,351</u>	<u>15,032,819</u>
-	844	1,019	69,215
-	158	190	12,920
<u>-</u>	<u>1,002</u>	<u>1,209</u>	<u>82,135</u>
4,758	129,820	207,451	11,265,758
4,702	178,738	101,691	3,684,926
<u>9,460</u>	<u>308,558</u>	<u>309,142</u>	<u>14,950,684</u>
-	128	382	38,714
-	24	71	11,831
<u>-</u>	<u>152</u>	<u>453</u>	<u>50,545</u>
4,758	129,948	207,833	11,304,472
4,702	178,762	101,762	3,696,757
<u>\$ 9,460</u>	<u>\$ 308,710</u>	<u>\$ 309,595</u>	<u>\$ 15,001,229</u>
\$ -	\$ 844	\$ 1,019	\$ 69,215
-	3	91	23,255
176	466	-	3,727
<u>176</u>	<u>1,313</u>	<u>1,110</u>	<u>96,197</u>
-	158	190	12,920
-	-	17	3,888
33	106	-	1,730
<u>33</u>	<u>264</u>	<u>207</u>	<u>18,538</u>
<u>\$ 209</u>	<u>\$ 1,577</u>	<u>\$ 1,317</u>	<u>\$ 114,735</u>

Hungerford, Aldrin, Nichols & Carter, P.C.

CPAs AND CONSULTANTS

October 29, 2008

The Board of Education
Kenowa Hills Public Schools
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kenowa Hills Public Schools as of and for the year ended June 30, 2008. The comments are made in accordance with Statement on Auditing Standards (SAS) No. 114 "The Auditor's Communication with Those Charged with Governance" which requires that in all audits, certain matters are to be communicated with those charged with governance in relation to an audit of financial statements. The communications required by SAS No. 114, if pertinent to the examination, are as follows:

The Auditor's Responsibility Under U.S. Generally Accepted Accounting Principles

As stated in our Engagement Letter dated June 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you, or management, of your responsibilities.

Auditor's Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable, independence standards. Our policies address financial interest, business and family relationships, and non-audit services that may be thought to bear on independence. In addition, our policies restrict certain non-audit services that may be provided by our firm staff and require our audit clients to accept certain responsibilities in connection with the provision of permitted non-audit services.

An Overview of the Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the Engagement Letter dated June 1, 2008.

Significant Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Engagement Letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kenowa Hills Public Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in performing and completing our audit for the year ended June 30, 2008.

Disagreements with Management

We encountered no significant disagreements in dealing with management in performing and completing our audit for the year ended June 30, 2008.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the Management's Representation Letter dated October 29, 2008.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements. There were no adjustments proposed during the audit not accepted and recorded by Kenowa Hills Public Schools management.

District-wide Financial Statements

1. \$244,294 to record accrued interest payable at June 30, 2008.
2. \$221,695 to record 2007-08 amortizable bond issuance costs.
3. \$8,540 to record 2007-08 net expenses recognized for accumulated employee sick leave.
4. \$1,040,775 to record 2007-08 depreciation expense on capital assets.

General Fund

1. \$55,859 to reverse a KISD receivable erroneously posted twice.
2. \$109,784 to reverse encumbrances recorded against General Fund balance.
3. \$786,370 to reverse special education payables recorded incorrectly.

Food Service Fund

1. \$75,445 to record USDA bonus and entitlement commodities used in 2007-08.

Debt Service Fund

1. \$24,839 to properly allocate property tax revenues between District accounts and funds.

Other Significant, Relevant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to, and during the process of, the District's audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Current auditing standards (SAS No. 112 "Communicating Internal Control Related Matters Identified in an Audit") also require that auditors communicate, in writing, any significant deficiencies and/or material weaknesses in the design or operation of an entity's internal controls discovered during the audit. As we found no significant deficiencies or material weaknesses during the audit, no SAS 112 letter is required.

Significant new auditing standards from the American Institute of Certified Public Accountants were required to be implemented during the 2007-08 audit process involving the auditor's review, observation evaluation and documentation of the District's significant areas of internal controls. Our findings and comments regarding the District's internal control processes and procedures are detailed in Appendix A, attached to this letter.

Other Comments

The District's General Fund balance increased by \$98,560 during the 2007-08 fiscal year, to a balance of \$5,878,741 at June 30, 2008. This balance represents 17.0 % of the District's 2008-09 expenditure budget, down from 17.5% at June 30, 2007. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kenowa Hills Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Kenowa Hills Public Schools
October 29, 2008
Page 4

Closing

This communication is intended solely for the information and use of the Kenowa Hills Public Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audit report as required by the State of Michigan.

Hungerford, Aldrin, Nichols & Kester, P.C.

Certified Public Accountants

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
KENOWA HILLS PUBLIC SCHOOLS
For the Year Ended June 30, 2008

Listed below are the internal control areas that auditors are now required to review, evaluate and document during the audit process, if those areas are significant to an entity's operations. For each of the areas considered to be "significant" the auditor must answer all of the following questions, inspect supporting documentation and observe client compliance with its prescribed procedures, i.e. "walkthrough" the process as it is being performed.

1. Is the control placed in operation?
2. What audit assertions apply to this control?
3. Is the control a key control?
4. Is the control dependent on IT?
5. Is the control manual or automated?
6. Is the control properly designed?
7. Is the control implemented?
8. Comments/transactions or documentation examined for walkthrough
9. Is a control deficiency possible?

The significant internal control areas of Kenowa Hills Public Schools are listed below. Each bullet point describes the "significant" internal controls that apply in each internal control area. The bolded comments represent suggestions for improvements in the District's internal controls, based on our observations during the 2007-08 audit process.

GENERAL CONTROLS

- Documentation of the internal control system
- Segregation of duties
- Independent monitoring of accounting functions
 - **Independent monitoring of the District's many accounting functions is an important facet of any internal control system. We recommend that the District expand and improve it's procedures for independent review and monitoring of accounting functions – especially in the areas of cash receipting, bank reconciliations, cash disbursements, balance sheet accounts for all District funds and adjusting journal entries as a means to achieving the monitoring/review procedures required for strong internal controls.**

BUDGETS

- Budget adoptions, amendments for all required funds
 - **The General Fund budget (for both revenues and expenditures) must be closely monitored near year-end to anticipate changes from original expectations and amend function level balances to avoid significant variances between final actual and budgeted results.**
- Budget accounting principles consistent with actual transactions
 - **The Food Service budget should reflect U.S.D.A. entitlement and bonus commodities used as federal revenues and food expenditures to match actual transactions recorded in the financial statements.**
- Documented authorization for all budget amendments

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
KENOWA HILLS PUBLIC SCHOOLS
For the Year Ended June 30, 2008

CASH

- Cash collection/receipting procedures
 - **Periodic monitoring of the cash collection/deposit process should be completed by business office personnel in the areas outside of the central office where cash is commonly collected (food service, athletics, student activities, preschool/childcare,). Uniform documented procedures should be established to insure the safety of District funds in each of these areas.**
- Cash storage/deposit procedures
- Bank account security/authorization policies
- Check preparation/signing/security procedures
- Non-check disbursement authorization/control policies and procedures
- Bank reconciliation preparation/monitoring procedures

INVESTMENTS

- Investment policy adoption/implementation/monitoring procedures
 - **The District Investment Policy should be reviewed annually by the Business Manager and the Board of Education (and/or Finance Committee) to respond to the rapid changes occurring in the investment environment, and to insure compliance with current accounting disclosure requirements. Someone in District governance (a Board of Education or Finance Committee member) should be responsible for reviewing District investments on a regular basis to insure that the requirements of the Investment Policy are being followed. This process should include a review of FDIC insurance coverage with each financial institution utilized by the District.**
- Investment purchase approval procedures
- Investment custodial /security policies/procedures
- Investment record keeping/reconciliation procedures
- Investment return policies/procedures/monitoring

REVENUES AND RECEIVABLES

- Budgeting and actual-to-budget monitoring procedures
- Property tax collection/monitoring procedures
- State revenue sharing verification/reconciliation procedures
- Billing/collection procedures for fees/charges for services

EXPENDITURES AND PAYABLES

- Purchase order initiation/approval/processing procedures
- Invoice processing/approval/payment procedures
- Purchase pricing/cut-off/compliance review procedures
- Budget-to-actual comparison/review procedures

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
KENOWA HILLS PUBLIC SCHOOLS
For the Year Ended June 30, 2008

PAYROLL

- Hiring/personnel input procedures
- Timekeeping/approval procedures
- Payroll preparation/distribution/general ledger procedures
- Cost allocation procedures/monitoring
- Budget-to-actual comparison/review procedures
- Payroll bank account transaction monitoring/reconciliation

CAPITAL ASSETS

- Acquisition/disposal/capitalization approval/documentation
- Asset custody/security/recordkeeping procedures
- Construction project record keeping/monitoring procedures
- Lapse schedule/depreciation record keeping/monitoring procedures

DEBT AND DEBT SERVICE

- Debt issuance and liability transaction approval
- Debt proceeds expenditure/monitoring procedures
- Debt agreement compliance monitoring procedures
- Principal and interest payment/monitoring procedures
- Debt refunding approval/documentation/monitoring

GRANTS AND SIMILAR PROGRAMS

- The District has procedures for identifying federal, state and other awards
- The District has accounting procedures for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant
- The District has a documented time schedule for filing financial reports with Grantors and policies for identifying special requirements of grants
- District funds are accounted for in separate grant control accounts
- The District has established controls to preclude charging federal award Programs with unallowable costs and expenditures
- The District has responsible individuals who monitor matching requirements, levels of effort, and earmarking limitations to insure District compliance with applicable laws and regulations
- Reconciliations of grant financial reports with supporting accounting records Are prepared, reviewed, and approved by a responsible official before filing
- Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger
- A responsible official approves requests for advances or reimbursements.
- The District's calculation of required District funds considers updated estimates of allowable program costs

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
KENOWA HILLS PUBLIC SCHOOLS
For the Year Ended June 30, 2008

- A responsible member of management reviews costs charged to direct and indirect cost centers in accordance with applicable grant requirements and governmental management circulars pertaining to cost principles
- A responsible member of management uses a set checklist to review and approve the provision of services to ensure that recipients are eligible under specific program requirements
- The District's employee time allocation method is in accordance with the Standards outlined in federal circulars or agency regulations

INFORMATIONAL TECHNOLOGY

- Computer access is limited to specific persons and individuals have access only
 - **The District should consider further strengthening the process of assigning user access rights to ensure that access is being granted based on an employee's job responsibilities. Access should be limited to applications and files that are necessary to perform each individual's daily job duties.**
- Passwords are required to be complex and to be changed at regular intervals
 - **Password security should be reviewed and improved to insure future data security.**
- There are appropriate documented procedures for back-up and storage of Applications and data files
 - **The District should develop a comprehensive back-up and recovery and data retention plan as part of a documented disaster recovery plan.**
- There is a documented disaster recovery plan and it has been tested
 - **A formal disaster recovery plan should be created and updated on an annual basis to ensure the timely recovery of data and the functionality of the District's information technology assets.**
- The District has well defined policies and procedures in place for which address performing patches and upgrades, user access administration, general backup and recovery operations and timelines for performing regular security and configuration settings reviews.
 - **The District should consider taking additional steps to establish a defined set of standard operating procedures and policies and evaluate their effectiveness throughout the year. Doing so will help to establish a stable and secure IT operating environment that consistently produces reliable data and reduces the risk of fraud or the loss of sensitive data.**

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
KENOWA HILLS PUBLIC SCHOOLS
For the Year Ended June 30, 2008

STUDENT ACTIVITY ACCOUNTS

- **The Student Activity Fund should be used only for “student activities”: those funds which are raised by students, and administered by students and their advisors, to be used for the specific benefit for which the funds are raised. Purchases such as athletic supplies and/or equipment and instructional supplies and/or equipment should be purchased from budgeted Athletic or General Fund expenditure accounts. If specific funds are raised or earmarked for these purchases, those funds should be deposited in the Athletics of General Fund as donations from the funding source. All purchases made from Student Activity accounts should be in accordance with District purchase order and expenditure approval policies, and the payment of payroll/employee benefits through the Student Activity Fund should be discouraged. Activities that do not directly involve students should not exist in the Student Activity Fund, but should be recorded in the District fund that the activity benefits. Each Student Activity account should have a documented use for its receipts and remaining balances, to insure the proper custody and disbursement of the funds on an ongoing basis.**

**KENOWA HILLS
PUBLIC SCHOOLS
Kent and Ottawa Counties, Michigan**

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2008

TABLE OF CONTENTS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2008

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	12
Notes to Schedule of Expenditures of Federal Awards	14

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 29, 2008

The Board of Education
Kenowa Hills Public Schools
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools, as of and for the year ended June 30, 2008, which collectively comprise Kenowa Hills Public School's basic financial statements and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kenowa Hills Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kenowa Hills Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kenowa Hills Public School's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The Board of Education
Kenowa Hills Public Schools
October 29, 2008

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kenowa Hills Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Kenowa Hills Public Schools in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldine, Nichols & Austin, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

October 29, 2008

The Board of Education
Kenowa Hills Public Schools
Kent County, Michigan

Compliance

We have audited the compliance of Kenowa Hills Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Kenowa Hills Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kenowa Hills Public School's management. Our responsibility is to express an opinion on Kenowa Hills Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kenowa Hills Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kenowa Hills Public School's compliance with those requirements.

In our opinion, Kenowa Hills Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Kenowa Hills Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kenowa Hills Public School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kenowa Hills Public School's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise Kenowa Hills Public School's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
061530 0607		\$ 12,532
071530 0607		217,991
081530 0708		284,643
Total Title I		515,166
Title I – Migrant:	84.011	
071890 0607		51,050
081890 0708		62,556
Total Title I – Migrant		113,606
Title IIA:	84.367	
060520 0607		61,019
070520 0607		93,457
080520 0708		119,348
Total Title IIA		273,824
Title IID:	84.318	
062490 0607		2,455
074290 0607		2,214
084290 0708		2,492
Total Title IID		7,161
Title V:	84.298	
070250 0607		726
080250 0708		726
Total Title V		1,452
Service Provider Self Review:	84.027A	
070440 0607		5,000

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2008
\$ 12,532	\$ 12,532	\$ —	\$ 12,532	\$ —
106,933	198,444	—	106,933	—
—	—	281,703	—	281,703
119,465	210,976	281,703	119,465	281,703
(677)	50,373	677	—	—
—	—	61,879	—	61,879
(677)	50,373	62,556	—	61,879
41,048	61,019	—	41,048	—
48,762	70,165	—	48,762	—
—	—	90,192	—	90,192
89,810	131,184	90,192	89,810	90,192
1,891	2,455	—	1,891	—
2,214	2,214	—	2,214	—
—	—	2,395	—	2,395
4,105	4,669	2,395	4,105	2,395
726	726	—	726	—
—	—	726	—	726
726	726	726	726	726
5,000	—	—	5,000	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Title III Limited English: 070580 0607 080580 0708 Passed through to subrecipients	84.365A	\$ 18,267 29,277 —
Total Title III Limited English		47,544
Total Passed Through MDE		963,753
Passed through Kent Intermediate School District (KISD): Safe and Drug Free Schools and Communities Act: 072860 0607 082860 0708	84.186A	4,131 7,764
Total Safe and Drug Free Schools and Communities Act		11,895
Special Education Cluster: I.D.E.A. – Flow Through: Flow Through – 070450 0708 Flow Through – 080450 0708	84.027	642,354 657,475
Total I.D.E.A. – Flow Through		1,299,829
I.D.E.A. – Preschool: Preschool – 070460 0708 Preschool – 080460 0708	84.173	23,712 21,535
Total I.D.E.A. – Preschool		45,247
Total Special Education Cluster		1,345,076
Total Passed Through KISD		1,356,971
Total U.S. Department of Education		2,320,724
Corporation for National and Community Service Passed through Kent Intermediate School District (KISD): Learn and Serve 30600/27673 0708 Program	94.004	5,000

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2008
\$ 18,267	\$ 18,267	\$ —	\$ 18,267	\$ —
—	—	20,873	—	20,873
—	—	8,404	—	8,404
18,267	18,267	29,277	18,267	29,277
236,696	416,195	466,849	237,373	466,172
—	—	4,131	4,131	—
—	—	3,124	2,964	160
—	—	7,255	7,095	160
289,135	631,121	11,233	294,220	6,148
—	—	657,475	436,972	220,503
289,135	631,121	668,708	731,192	226,651
8,629	23,331	381	8,802	208
—	—	21,535	13,429	8,106
8,629	23,331	21,916	22,231	8,314
297,764	654,452	690,624	753,423	234,965
297,764	654,452	697,879	760,518	235,125
534,460	1,070,647	1,164,728	997,891	701,297
—	—	5,000	—	5,000

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Health and Human Services		
Passed through Kent Intermediate School District (KISD):		
School Based Medicaid:	93.778	
0607 Program		\$ 2,542
0708 Program		7,047
		<hr/>
Total School Based Medicaid		9,589
		<hr/>
U.S. Department of Agriculture		
Passed through Michigan Department of Education (MDE):		
National School Lunch Program:		
Lunches:	10.555	
Section 4 - Total Servings – 1950		46,352
Section 11 – Free and Reduced – 1960		339,097
		<hr/>
Total Lunches		385,449
		<hr/>
Breakfast:	10.553	
Total Servings – 1970		3,538
Free and Reduced – 1970		82,345
		<hr/>
Total Breakfast		85,883
		<hr/>
Total Nutrition Cluster Program		471,332
		<hr/>
U.S.D.A .Commodities:	10.550	
Bonus Commodities		93
Entitlement Commodities		75,352
		<hr/>
Total U.S.D.A. Commodities		75,445
		<hr/>
Total U.S. Department of Agriculture (Passed Through MDE)		546,777
		<hr/>
Total Federal Financial Assistance		<u><u>\$ 2,879,575</u></u>

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2008
\$ 2,542 —	\$ 2,542 —	\$ — 7,047	\$ 2,542 —	\$ — 7,047
2,542	2,542	7,047	2,542	7,047
—	—	46,352	46,352	—
—	—	339,097	339,097	—
—	—	385,449	385,449	—
—	—	3,538	3,538	—
—	—	82,345	82,345	—
—	—	85,883	85,883	—
—	—	471,332	471,332	—
—	—	93	93	—
—	—	75,352	75,352	—
—	—	75,445	75,445	—
—	—	546,777	546,777	—
\$ 537,002	\$ 1,073,189	\$ 1,723,552	\$ 1,547,210	\$ 713,344

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2008

Section I – Summary of Auditor’s Results (Continued)

Federal Awards (Continued)

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

 Yes X No

Section II – Financial Statement Findings

Current Year Findings

There were no findings that are required to be reported under *Government Auditing Standards*.

Prior Year Findings

Significant deficiency (Item 2007-1) in internal control over financial reporting:

- 2007-1 A lack of independent monitoring of certain accounting functions in the District business office (payroll operations, cash receipting/depositing, bank reconciliations) and of financial transactions occurring outside the business office (athletics, food service, student activities, tuition and fees.)

Corrective action taken and finding has been cleared.

Significant deficiency (Item 2007-2) in internal control over financial reporting considered to be a material weakness:

District officials or employees who lack the knowledge and training to fulfill certain responsibilities:

- 2007-2 The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) reporting standards in recording the District's financial transactions or preparing its financial statements (including Management's Discussion and Analysis and Notes to Basic Financial Statements) in compliance with current GAAP and GASB requirements.

Corrective action taken and finding has been cleared

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2008

Note A – The Schedule of Expenditures of Federal Awards (SEFA) was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.

Note B – The amounts reported on the R7120 and CMS, Grant Section Auditors Report, reconcile with the SEFA.

Note C – The amounts reported on the Recipient Entitlement Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

Note D – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$ 281,703	\$ 281,703	\$ —
Title I - Migrant	62,556	62,556	—
Title IIA - Improving Teacher Quality	90,192	90,192	—
Title IID - Technology Literacy Challenge	2,395	2,395	—
Title III Limited English	29,277	29,277	—
Title V	726	726	—
Learn and Serve	5,000	5,000	—
Safe and Drug Free Schools and Communities Act	7,255	7,255	—
Special Education Cluster	690,624	690,624	—
School Based Medicaid	7,047	7,047	—
Nutrition Cluster	471,332	471,332	—
U.S.D.A. Commodities	75,445	75,445	—
	\$ 1,723,552	\$ 1,723,552	\$ —